residential and small business customers. Indeed, the business case for our National-Local Strategy assumes that penetration of the residential and small business segments will begin in the first year following implementation of the strategy.

15. To summarize, the National-Local Strategy represents the culmination of major changes in SBC's strategic direction that have evolved in just the last three years. These changes are the product of a dramatically new environment in the telecommunications market, which has compelled SBC to reevaluate its role in the industry and the means by which it will continue to deliver value for its shareholders.

The New Telecommunications Environment

The Advent of Local Exchange Competition

16. The passage of the 1996 Act has markedly changed how telecommunication services are being provided today and will be provided in the future. Prior to the passage of the Act, the telecom business was essentially segmented by regulatory fiat. BOCs were generally limited to providing local exchange service and none other. In addition, they were limited by geographic region due to the existence of geographic franchises granted by the various states. To a significant extent local exchange service was a legal monopoly market which could not be entered by anyone other than the franchised incumbent. In exchange for this exclusive local monopoly, local exchange carriers had an obligation to be the carrier of last resort and to provide service at regulated prices to any customer wherever they might be located regardless of the cost of doing so.

17. These local exchange carriers operated under a rate of return regulation that limited earnings to an amount prescribed by regulators. This model served the United

States well as it drove the development of a nationwide, ubiquitous, high-quality network. It provided local exchange services to anyone who wanted them at affordable prices. This regime was characterized by a complex system of subsidies which allowed basic residential local exchange service to be provided below the actual cost of providing that service with corresponding offsets in business services and exchange access which are priced well above the marginal cost of providing these services.

18. For a few years before the passage of the 1996 Act, we began to see some modifications in this regulatory plan as price cap regulation was put in place in almost every state. This regulation resulted from the recognition that rate of return regulation led to inefficiency. A company could increase its earnings by increasing its investment, but had little incentive to cut costs. While the rate of return model worked well at a time when the network was not well developed, such incentives were no longer appropriate in the late '80s and early '90s. Even with the advent of price cap regulation, however, the strict segregation of providers by line of business or service offered remained in place, as did the various pricing subsidies discussed above.

19. Over time, this legislated local exchange monopoly began to erode at the edges and competition began to creep into the market. The competition first focused on business customers, where the system of subsidies had distorted the pricing and created opportunities for competitive access providers ("CAPs") and others to offer alternative services below the inflated prices set by regulators. Still, the underlying obligation to be a carrier of last resort and, more importantly, the basic legal monopoly franchise, continued.

20. With a few state-specific exceptions, the 1996 Act effected the elimination of the local exchange monopoly franchise. As a result of the 1996 Act, full local exchange competition is now legally and practically possible.

21. Ironically, the Act also placed incumbent local exchange carriers ("ILECs") such as SBC in an unsustainable quandary. On the one hand, we compete against large, fully integrated national and global carriers (as discussed below) and providers who can serve large business customers on an unregulated basis. The prices which the ILECs charge these customers have been maintained at artificially high levels in order to subsidize the rates charged residential customers through regulatory fiat. At the same time, an ILEC, while opening its markets to competition, must continue to provide service at prices that are capped to all customers regardless of their profitability.

22. We believe that SBC can no longer remain a regional carrier overrun with competition at the high profit end of the market spectrum while continuing to labor under the obligations of a carrier of last resort at the low end. In order to compete successfully and thrive in this new telecom marketplace, a stand-alone and static strategy is, in our judgment, no longer viable for SBC.

Current Trends

23. The advent of full competition has brought forth a plethora of new entrants into the telecommunications industry while at the same time initiating a trend towards consolidation. In SBC's view, this trend will likely result in an industry populated by at least two types of firms. On the one hand, there will be a large number of nimble, efficient and well-financed regional or niche players serving distinct geographic areas or market segments. At the same time, there will be a smaller number of well recognized,

financially strong, technically capable, fully integrated national and global competitors who will compete to serve the global needs of large business customers and, at the same time, provide effective competition to the ILECs for medium and small business and residential customers. As evidenced by SBC's actions to date and specifically by SBC's commitment to the National-Local Strategy, SBC and Ameritech have chosen to become such a national and global competitor.

24. Customers now see an opportunity to obtain what they want -- the option of having one principal source of service, one source of contact and consolidated lines across the nation and around the world. Telecommunication companies that are not satisfied with being regional and/or niche competitors are moving to obtain the capabilities necessary to provide such services around the world. In order to be effective in this global marketplace, carriers must have significantly expanded scale and scope efficiencies and geographic capabilities.

25. While SBC and Ameritech have concluded that a regional or niche strategy is not in the best interests of their customers, employees and shareholders, it is an appropriate, viable, even compelling opportunity for other companies. These companies can be extremely effective competitors for certain segments of the business and residential customer base. This is particularly true for new entrants in light of the pro-competitive market opening requirements of the 1996 Act, which make available to such companies unbundled elements and resale capabilities that piggyback on the cost efficiencies of the existing incumbent.

26. Unlike the ILECs, many of these regional and niche providers will focus exclusively on specific segments of the market (e.g., mid-size business customers, multi-tenant dwelling units) and rely on the incumbent to make ubiquitous services

available for resale or to provide unbundled elements at attractive rates. These regional and niche competitors can provide a package of goods and services without the significant capital and other requirements of the ILECs. As such, the niche providers are positioned to be very effective and profitable competitors.

Description of SBC's Out-of-Region Business Plan

Overview

27. SBC's out-of-region business plan has domestic and international components. The domestic plan, which we refer to as the National-Local Strategy, contemplates SBC/Ameritech rapidly entering into 30 of the largest Metropolitan Statistical Areas ("MSAs") in the United States outside of SBC's and Ameritech's combined territory. This competitive entry will involve a full range of offerings, including local exchange, long distance, high-speed data and other telecommunications services. The plan also contemplates the combined companies' expansion into numerous foreign markets. This business plan is a critical, indeed indispensable, component of the SBC/Ameritech merger. As I will explain in more detail below, SBC would not undertake this merger without the National-Local Strategy. By the same token, absent the merger SBC does not believe it could undertake the task of competing out-of-region in all the key domestic and international local exchange markets.

28. In preparing the financial analysis for this business plan, SBC devoted significant internal resources, consulted with advisors, and employed the same customer-focused, financially driven planning process that it utilizes in preparing its day-to-day operating business plans. The SBC team that prepared the National-Local Strategy, under my direction, has extensive experience in preparing such business plans and exercised its

collective best judgment in preparing this particular plan. At the same time, due to the importance of the National-Local Strategy, SBC drew upon the significant experience and resources of our investment bankers in analyzing market entry and in substantiating the viability of the plan.

29. The National-Local Strategy consists of three separate but interrelated sections that were then combined into a single overall plan. The three sections focused on different customer and service segments to provide additional clarity to the planning process. Each section includes its own projections of capital costs, personnel requirements and administrative expenses.

30. One section focused on the thousand largest companies in the United States, many of which have global needs and requirements. Due to their size and geographic diversity, these customers have unique telecommunications needs. Many of these companies are now looking for a single or primary source to provide a substantial majority of the telecommunications services. By utilizing a single source, large customers can capture economies of scope and scale, ensure uniformity of service and functionality across the enterprise, and rely on a single point of accountability for keeping the network up and running. These customers seek the same services, features, functions and capabilities for all of their locations, which can only be provided by a company that has facilities-based capabilities across the United States and, in many cases, around the world. Thus, in order to even be considered as a potential provider to this important segment, a provider must be able to demonstrate a nationwide and ultimately a worldwide capability.

31. The second section of the National-Local Strategy focuses on smaller businesses and residential customers. Just as the large corporations have their own

special needs for telecommunications services, so too do smaller businesses and residential consumers, although the latter types of customers are generally looking for a different subset of services and will require a different focus in marketing as well as service capabilities. For example, while large businesses may have their own PBX which serves hundreds of lines, small businesses and residential customers want features such as call waiting which are not demanded by large businesses.

32. The third section of this National-Local Strategy focuses on the data needs of telecommunications customers. While this is primarily directed at business customers, it does contemplate the availability of a nationwide Internet Protocol ("IP") based network capable of providing advanced data and Internet access capabilities to all types of customers.

33. By preparing this business plan in these three components, SBC was able to analyze the resources needed to address the telecommunications needs of each of the unique customer segments in the industry today. In addition, we reviewed the need to construct or acquire facilities necessary to provide the services demanded by each market segment as we prepare to enter these highly competitive markets.

34. The National-Local Strategy contemplates the rapid entry by the combined SBC/Ameritech companies into 30 of the largest MSAs in the United States outside of our existing local exchange regions. SBC will install switches in each of these markets within three years after the closing of our merger with Ameritech. This local exchange entry will be the broadest and deepest such entry undertaken by any telecommunications company in the United States to date. The 30 MSAs in which SBC expects to provide local exchange services include New York, Boston, Washington, Baltimore, Phoenix, Providence, Atlanta, Denver and other markets shown on

Attachment A to this affidavit. These 30 markets currently include 70 million people, 31 percent of the U.S. total and 53 percent of the population outside the home regions of SBC and Ameritech. The ILECs in these markets currently serve 18 million business lines, 37 percent of the U.S. total and 51 percent of the business lines outside the current wireline territories served by SBC and Ameritech.

35. We are continuing to refine our analysis of these markets by studying the locations where our current customers have facilities. As a result of this review, we may modify this list to ensure we are in the markets in which our customers have significant operations. With the entry into these 30 markets, the new SBC will be a facilities-based local exchange provider in 50 of the largest MSAs in the country.

36. In entering these markets, SBC from the outset will serve not only large corporate customers, but also medium and small business customers and residential customers on an extensive basis. SBC's entry into these markets will be costly from a capital and manpower basis and will require the extensive management and technical expertise of the combined SBC/Ameritech. This is particularly true since, as a result of this National-Local Strategy, SBC will be entering local markets served by and competing with incumbent local exchange carriers such as Bell Atlantic, BellSouth, US West and GTE. In addition to competing with these incumbent carriers, SBC will also be simultaneously competing with the various global, regional and niche competitors who are serving these markets. These competitors include established enterprises such as AT&T/Teleport/TCI, MCI/WorldCom/MFS/Brooks Fiber/UUNet, and Sprint/France Telecom/Deutsche Telekom, and new entrants such as Level 3 Communications, Qwest/ LCI, WinStar, Teligent and hundreds if not thousands of other CLECs and long distance providers.

37. Each section of the National-Local Strategy contemplates the construction or acquisition of significant facilities to serve the customers' needs. For example, the large and mid-size business segment alone contemplates the placement of in excess of 60 switches in the 30 markets across the United States. The strategy for the small business and residential customer segment contemplates the installation of over 80 additional switches in these markets. These switches will enable SBC to provide a full range of services for its customers in these markets. This business plan not only identifies the particular markets which will be entered, but includes plans for the placement of certain switches by market, the installation of fiber and the deployment of personnel and other resources.

38. In addition to installing switches, SBC believes it will be necessary to develop its own fiber networks, which will ultimately include more than 2,900 fiber miles – between 75 and 125 miles in each of the 30 out-of-region markets. This approach is in stark contrast to other companies, which have constructed and provided fiber primarily to provide intercity transport. Instead, our fiber will be available to provide local exchange services in the 30 MSAs which SBC contemplates entering. As a result, this 2,900 miles of fiber is of greater strategic value in providing local exchange competition than the intercity transport networks which have been constructed by many other companies.

39. SBC will be able to devote its fiber in these markets to the provision of competitive local exchange service due to the extensive availability of intercity transport from companies such as Qwest, Williams and other transport providers. By utilizing a "smart build" strategy, i.e., focusing SBC's capital where other transport is not physically or economically available, SBC will construct its fiber networks where the customers most need them and will otherwise utilize available inter-city and other transport

capabilities that are already constructed to most efficiently manage SBC's capital. These fiber networks and switches will be supplemented by extensive utilization of unbundled network elements, primarily local loops. In SBC's judgment, it is critical that it utilize its own strategic facilities to the fullest extent possible both for residential and business customers so that it can position itself to design, manage and develop the services, features and functionality necessary for large corporate customers, as well as to differentiate itself in the marketplace through the availability of new and innovative services. This strategy will also facilitate the utilization of economies of scale and scope which can be gained by offering such service capabilities on a broad geographic scale.

40. In implementing this National-Local Strategy, it is essential that SBC fully utilize all of the assets that will be available to the combined SBC/Ameritech. In particular, in order to minimize the enormous risk of such a broad-based entry against such significant competitors, we focused on building upon the combined company's customer base and other assets. Accordingly, the National-Local Strategy contemplates initially marketing to and securing the business of large corporations with multi-state requirements whose headquarters are located in the new SBC territory. These customers can form the base or anchor tenants for our deeper entry into the 30 MSAs.

41. For example, corporations that have locations in certain markets can provide the base that will justify the initial placement of personnel, switching capacity and the construction of fiber capabilities in those markets. Once those resources are in place, SBC can utilize those assets to expand its market entry to other large businesses, and to deepen its market penetration to medium and small businesses and to residential customers. As a result, these large corporations become the foundation for the new SBC's entry into the local exchange market and form the anchor for residential local

exchange entry. Indeed, the need to broaden SBC's existing customer base which expands the universe of customers who can be followed in this 30 market plan is one of the key drivers in the SBC/Ameritech merger.

42. Combining this "smart build" approach with following existing customers is analogous to the strategy utilized by competitive access providers when they first entered the local exchange market. While the CAPs were focusing only on business customers, they generally would not place facilities to a particular building or campus until they had one or more customers physically located there. Once those customers had agreed to purchase services from the CAP, it could then use the facilities and other resources placed to serve that particular customer as a basis on which to provide service to other businesses in the area. SBC has expanded this strategy significantly to form the basis for a very aggressive National-Local Strategy to become a nationwide and ultimately global provider of local and other telecommunications services.

43. Revenue and customer penetration is targeted to grow quickly under the National-Local Strategy. We are aiming for $2 billion in revenue by 2003 and more than $7 billion in revenue by 2008. Earnings are estimated to turn positive in 2003. SBC expects to capture between 5-10% of the addressable business and residential customers by the end of the plan.

44. These expectations are significant for two reasons. First, the level of penetration in these markets is both evidence of and a good predictor of SBC's commitment to this business plan. Second, to achieve these levels of penetration SBC must be an effective competitor. This is particularly true since SBC will be competing not just with the incumbent local exchange providers, or just with all the other national/global competitors that are in those markets, but with all the niche competitors as well. To achieve these

targets, SBC must offer new and innovative services and features and packages of those services and features at competitive prices. All consumers, regardless of the market segments in which those consumers might be, are the winners when a company such as the new SBC can enter these markets and provide such a competitive offering.

45. In this section I have only provided an overview of the most important features of our National-Local Strategy and how it was devised. I will now to turn to a more detailed description of various aspects of that plan.

Selection of Initial Target Markets

46. The new SBC created as a result of this merger will implement a prompt entry into 30 of the top MSAs in the country in which it is not an incumbent local exchange carrier. SBC believes it must ultimately be in each of the largest markets in the country in order to retain and attract the largest business customers. Once SBC is in those markets, it must utilize the assets, personnel and facilities in place to the fullest extent possible in order to insure the ultimate success of this National-Local Strategy. With the new SBC's experience and expertise in providing telecommunication services, we believe we can effectively utilize these assets to serve both business and residential customers.

47. The top 50 markets represent our view of where we must be in order to have a presence in the locations where our largest customers have facilities. SBC is continuing to refine this strategy and, through external data sources, determine where the corporations that are located in our regions have the most regional and other locations outside of our home region.

48. The need to be in these fifty markets can best be illustrated by an example. One of our most fundamental assumptions is that, in order to compete effectively for the business of our largest customers, we must have "coverage" of approximately seventy to eighty percent (70% - 80%) of the telecommunications expenditures made by those customers. We believe our rivals will certainly be able to offer such coverage. Any lesser coverage by SBC will, we believe, disqualify SBC from consideration by such customers as their prime contractor for telecommunications services.

49. We have identified 224 Fortune 500 companies that are headquartered in the 13 states served by SBC, Ameritech and SNET. Utilizing information derived from data available from WEFA, which describes a company's expenditures for local and long distance services, we calculated the number of these Fortune 500 companies for whom we could meet our 70% - 80% coverage standard. This data also allows us to determine the percentage of these customers' sites or locations which we could serve.

50. We analyzed this coverage assuming that SBC (together with SNET) acted alone. We assumed that SBC would attempt to serve these 224 customers with facilities in its home region and in the 15 largest MSAs outside of SBC's region – the maximum out-of-region expansion that we thought was feasible for SBC alone. We did the same comparison assuming we close this merger with Ameritech and execute our National Local Strategy. The difference in these calculations conclusively demonstrates why this merger and the National-Local Strategy are critical to the success of SBC's plans.

51. If SBC alone enters the 15 largest MSAs, it will reach its goal of having 70-80% coverage for only 36 of the 224 companies studied on the basis of revenues and only 13 companies on the basis of sites covered. By comparison, when the combined

SBC/Ameritech completes its National-Local Strategy, it will meet the desired 70-80% coverage for 131 companies based on revenues and 86 companies based on sites.

52. Phoenix, Arizona is an excellent example of how this "follow our customer" strategy will work. In Phoenix, we have identified 2,126 locations owned or operated by businesses that are headquartered in the Ameritech, SNET or SBC territory. We know that these businesses spend $70 million on local and long distance services annually.

53. However, sixty (60%) of these business locations belong to customers whose headquarters are in Ameritech's region -- absent the combination of our companies, neither SBC nor Ameritech would have a sufficiently large customer base to follow into Phoenix. Together, however, the base of customers followed can become the anchor tenants for our entry into that market.

54. Not only must SBC be in each of these markets, we must enter them promptly. We cannot be competitive in responding to requests for proposals from multi-location customers by promising a customer that we will be in a certain market a few years from now. Customers want service where they are today and they want service now. As a result, SBC is compelled to promptly enter each of these 30 markets in order to effectively implement this strategy.

Extensive Facilities-Based Entry

55. SBC will first focus on the deployment of switches, switch upgrades, multiplexing equipment, access equipment and office equipment to serve large and medium-sized businesses. As I mentioned previously, the plan contemplates the placement of at least 60 switches out-of-region to serve large and mid-size business customers, and an additional 80 switches to serve residential and small business accounts. The

architecture of each network, and the facilities used, will vary from market to market – SBC will build, buy, partner with another CLEC or combine elements of each of those approaches. We also intend to rely on interexchange carriers for the wholesale provision of long distance transport. Our current strategy contemplates that we will have at least two switches located in each of these 30 markets within three years of the closing of the SBC/Ameritech merger. Indeed, in some of the largest markets, we will have three or more switches operational within three years of the closing of this merger. In addition, our current planning contemplates that we will place switches in international markets within five years of the closing the SBC-Ameritech merger. These national and international markets will be linked primarily through transport facilities leased from third parties.

56. In addition, once we have these switches in place and as we implement our "smart build" strategy, we will have assets in place that will allow us to serve small business and residential customers. In doing so, we will offer packages of local exchange and long distance along with vertical features that our residential and business customers most want. Furthermore, as we provide new services and new capabilities to our large corporate customers, we will market these services to medium size businesses as well, creating even more opportunities for SBC to utilize this base of assets and take advantage of the potential economies of scale and scope made possible through this merger.

<u>Resource Commitment</u>

57. As one would expect when constructing 2,900 miles of fiber and placing into operation 140 switches, SBC's National-Local Strategy will require extensive capital

investment and the commitment of extensive financial and managerial resources. The National-Local Strategy calls for the investment of more than $2 billion in capital expenditures. This capital requirement is in addition to the capital requirements the new SBC must bear as it continues to enhance and maintain its local exchange networks in those markets where it is an in-region provider.

58. Over the next ten years, the operating expenses involved in these out-of-region operations will be in excess of $23.5 billion. In addition, these capital requirements and operating expenses are heavily weighted towards the early years of the business plan -- a return on this investment does not occur until the later years. Indeed, the magnitude of the investment required to sustain this venture is demonstrated by the fact that these operations are expected to generate negative cumulative cash flow until the ninth year of the National-Local Strategy.

59. Nor can you undertake such a significant business operation without a substantial number of highly skilled employees. Indeed, we anticipate that at the end of 10 years we will have over 8,000 new employees devoted solely to this out-of-region business plan. By way of comparison, MFS, one of the largest and oldest CLEC's in the country, has been in business nearly 12 years and has less than 4,000 employees today.

60. The employees for this new venture will receive compensation and benefits commensurate with the skill level required to be a successful provider of telecommunications services. The total employee-based selling, general and administrative expense for the large business segment ranges from over $8 million in 1999 to nearly $370 million in calendar year 2008. When you consider all of the other sales and marketing expenses and network operating expenses, the total selling,

general and administrative expenses in this segment of the business plan range from $8 million in 1999 to $460 million in 2008.

61. Such a vast undertaking clearly requires significant management resources and talent, extensive and sophisticated training capabilities and a large body of support personnel at the corporate level to provide the benefits and programs required to effectively place and maintain these employees in 30 markets around the country. Neither SBC nor Ameritech alone has the management resources to undertake such an ambitious program.

Penetration of Small Business and Residential Segments

62. As I described above, our small business/residential strategy is built from the bottom up. By that I mean we worked from anticipated service offerings, customer demands, and market share penetrations to determine the switching and other requirements which we will need in those markets. Within the next ten years, the 30 out-of-region markets will have 30 million households and 10 million small businesses. We project that the average number of lines will rise from 1.25 to 1.58 per household, and from 3.0 to 4.13 for small businesses.

63. SBC will begin offering service to residential customers within one year of the closing with Ameritech, and plans to offer service to a majority of the households in the 30 out-of-region markets within four years of closing. We anticipate that we will achieve an overall penetration rate of 4 percent of the residential customers in all of these 30 markets. These customers will be offered packages of services that will include local, long distance, and other features in a single offering. We anticipate achieving similar results in the small business segment. To achieve these results, SBC anticipates

spending approximately $500 per line ultimately served on customer acquisition, product development and marketing expenses related to residential and small business customers – a total of approximately $1.4 billion.

64. There is significant competition for the large and mid-sized business customers -- for whom prices have been maintained at artificially high levels through regulatory mandates. No company, however, has announced plans to attempt to serve residential and small business customers on such a broad geographic basis as SBC will undertake with its National-Local Strategy. For example, CAPs have focused on business customers with the largest business customers being their first choice for service. Companies such as MFS, ICG and others, all of whom are constructing facilities and have a limited number of switches in place, have as their primary focus serving business customers. Indeed, doubts have been raised about MCI/WorldCom's commitment to serving even its existing residential customer base for long distance service, much less its commitment to providing local exchange services to residential customers on a competitive basis.

Global Expansion

65. With the rapid globalization of business and of the telecommunications industry, stimulated by recent initiatives such as the landmark World Trade Organization agreements, it is increasingly important that the U.S. develop truly international telecommunications competitors. Otherwise, the U.S. risks being relegated to a supportive role in the growth of the global digital economy.

66. SBC believes that, in order to be fully competitive in this global telecommunications market, we must ultimately be able to provide facilities-based

services in other markets around the world. The proposed merger will combine Ameritech's existing international operations in Belgium, Denmark, Norway, and Hungary which it undertakes directly (a complete description is available at www.ameritech.com/corporate/international) or indirectly through TeleDanmark (described more fully in Attachment B) with SBC's current international operations in France, Switzerland, Asia, South Africa and Mexico (described more fully in Attachment C). SBC invested over $3.1 billion in making its initial investment in these countries. These investments by SBC have provided significant social and economic benefits in those countries. A brief description of SBC's activities in South Africa is contained in Attachment G to this Affidavit.

67. In addition, SBC plans a global expansion in order to become a U.S.-based global carrier capable of competing for U.S. and other multi-national companies with global operations. As we follow our largest customers domestically to out-of-region markets, the realities of the marketplace will also require that we follow them to their foreign locations as well. As a result, SBC has developed plans (which, due to a lack of regulatory clarity, are somewhat preliminary) to place switches in 14 major foreign markets within five years after closing the SBC/Ameritech merger. These plans include European markets such as Berlin, Hamburg, Frankfurt, and London; South American markets such as Rio de Janeiro and Sao Paulo; and Asian markets including Tokyo, Hong Kong and Singapore. SBC's international plans contemplate having at least one switch in each city by 2001, ultimately expanding to 27 switches by the end of the plan. As is true in our National-Local Strategy, SBC also plans to construct fiber in these cities, with 1,400 km. of fiber to be in place within two years of closing and more than

2,000 km. of fiber by the end of the plan. We estimate employing 3,500 employees in these cities by the end of the plan.

68. Just as it is necessary for SBC to be present in all of the top 50 United States MSAs in order to be the principal supplier of telecom services for major United States companies, so also are these international operations critical to SBC's ability to compete in the global market to provide telecommunication services to large multinational corporations. This strategy will place SBC in direct competition with such global providers as British Telecom, Deutsche Telekom/France Telecom/Sprint, AT&T/Teleport/TCI, NTT, MCI/WorldCom/MFS/Brooks Fiber/UUNet, and Cable and Wireless. Many of these companies have significant advantages in providing service to large corporations around the world. Cable and Wireless' capabilities will be significantly enhanced by its proposed acquisition of MCI's Internet business. Only through this merger with Ameritech, and the resulting ability to implement this nationwide and global strategy, can SBC hope to be competitive with such large international competitors.

Benefits of SBC and Ameritech Experience with Out-of-Region Competition

69. SBC and Ameritech have significant experience in competing out-of-region. SBC has been an effective competitor out-of-region in the wireless market since 1987. Ameritech, while having less domestic out-of-region experience in the telecommunications business, has a nationwide alarm monitoring business, which is a highly competitive market. The companies' combined experience in such competitive markets is of tremendous value to SBC in implementing this plan and provides evidence of our ability to compete vigorously as we implement the National-Local Strategy.

70. In 1986, SBC owned a relatively small wireless company with cellular licenses in parts of only four states -- Texas, Missouri, Oklahoma and Kansas. In September of 1986, SBC announced its acquisition of the cellular assets of Metromedia and immediately transformed a small geographically limited wireless company into a potential market leader.

71. But, this acquisition was met with widespread skepticism. Indeed, SBC was soundly criticized by analysts who claimed that we had paid too much for these assets. Critics questioned SBC's ability to compete with the wireless affiliates of incumbent local exchange carriers in Washington/Baltimore, Boston and Chicago. They pointed out that the systems we were acquiring were not fully constructed and that we would have to invest large sums just to develop a suitable network. Our ability to market our service once we had a network was questioned.

72. We proved our critics wrong. Today our wireless networks in Chicago, Washington, Baltimore and Boston are robust and fully developed. We have nine switches and 708 cell sites in place in Chicago alone. We have 292 cell sites in Washington, D.C., 121 in Baltimore and 190 sites in Boston. Of these 1,311 cell sites, 1,293 are digital sites using TDMA technology.

73. While we do not publicly disclose our penetration on a market-specific basis, our current overall cellular penetration of 12.2 percent puts SBC among the market leaders. Since nearly two-thirds of our traditional cellular POPs are in our out-of-region markets, we could not have obtained such a high overall presentation level without being very effective in these out-of-region markets. We market cellular service through over 6,000 sales outlets throughout our cellular service areas. Most of this distribution is located in our out-of-region markets.

74. A great deal has been learned from these efforts. The numbers speak for themselves. Stan Sigman notes in his affidavit, also attached to this application, that we have also learned lessons about certain activities that will not work well. This knowledge too is critical as we begin an aggressive implementation of our National-Local Strategy.

The Ameritech Merger is Essential to the National-Local Strategy

75. In the absence of the merger with Ameritech, the National-Local Strategy will not work. The problem is not primarily that SBC, on a stand-alone basis, is incapable of raising the capital necessary to fund the National-Local Strategy. The more important constraints are (a) customer base, (b) personnel, and (c) earnings dilution and market reaction.

76. As I have previously discussed, the combination of SBC and Ameritech creates a company with a broader geographic customer base to be "followed" and in turn will be the base for the entry into the related customer segments. On its own, SBC lacks a sufficiently broad customer base to allow SBC to be competitive when faced with the onslaught of competition from companies such as AT&T/Teleport/TCI, MCI/WorldCom/MFS/Brooks Fiber/UUNet, Sprint/France Telecom/Deutsche Telekom and other global competitors -- each of whom have a nationwide/global network, customer base and brand name recognition.

77. Equally important, the merger creates a much deeper pool of management and employee talent that is essential to carrying out this National-Local strategy. The necessity for extraordinary management and employee depth is particularly compelling when you consider the training and hiring demands that will be placed on a company to

generate over 8,000 broadly dispersed, highly skilled jobs on such a rapid basis. On a stand-alone basis, SBC simply does not have a strong enough bench to undertake anything as ambitious as the National-Local Strategy.

78. The merger creates a far larger pool of employees on which to draw in implementing the strategy. Even with Ameritech, we will be challenged to meet the personnel requirements of the strategy. It will still be necessary to hire significant numbers of new employees. However, the merger creates a larger cadre of managerial and technical talent on which we can draw. It has generally been our experience that staffing new ventures with a significant number of existing managers is preferable to relying extensively on newly hired managers.

79. Furthermore, the investment community measures SBC's performance by its ability to deliver earnings growth. This constraint is in stark contrast to start-up firms that the stock market evaluates on the basis of various factors <u>other than earnings</u>. SBC will experience significant earnings dilution and increased risk as a result of the start-up costs and losses during the earlier years of the National-Local Strategy. This dilution cannot be borne by SBC alone. By spreading that dilution and risk across a broader base of shareholders, the combined SBC/Ameritech can continue to provide investors with appropriate returns notwithstanding the costly National-Local Strategy. SBC would not, on its own, expose its smaller base of shareholders to the dilution and extensive risk of the National-Local Strategy.

80. Indeed, the business plan contemplates having a cumulative negative cash flow for nearly ten years. The remaining business operations of the new SBC must carry these negative cash flows while we continue to grow our existing business, grow our customer base, compete in the market where we are the incumbent, maintain and

enhance our existing networks and fund dividends. In fact, a significant percentage of the projected positive net present value in the business plan is a result of favorable results in the later years of the plan. Again, SBC on a stand-alone basis could not reasonably accept those short-term and medium-term losses, particularly given the rapidly changing nature of the industry that makes more distant gains less certain.

81. In contrast, however, the combined SBC/Ameritech can better absorb, reduce and manage those losses and the attendant risks. With the expanded base of customers to follow and expanded management/employee pool, and the scale and scope efficiencies which can be derived from combining these two companies, the new SBC can and will undertake this National-Local Strategy and make it a winning proposition for shareholders.

82. Inevitably, some pundits and industry rivals have characterized SBC's National-Local Strategy as a regulatory carrot that SBC has dangled in front of the FCC and other agencies in order to obtain approval of the Ameritech merger. In other words, they suppose that the National-Local Strategy is a means in order to achieve the objective of acquiring Ameritech.

83. SBC's perspective is exactly the opposite. We regard the Ameritech merger as the means and the National-Local Strategy as the objective. In view of the substantial premium paid by SBC's current shareholders to acquire Ameritech (approximately $13 billion), the Ameritech merger <u>on its own</u> is certainly not a compelling business opportunity for SBC. From SBC's perspective, the real upside for our current shareholders results from our ability, as a <u>result</u> of the merger, to preserve and create value for our shareholders by pursuing the National-Local Strategy.

84. In seeking approval for the SBC/Ameritech merger, SBC management reviewed with its Board of Directors the significant changes occurring in the telecommunications market today – the same changes that I have described in this Affidavit. We told the Board that it was our judgment that the market is characterized by rapid technological changes, globalization and continuing trends towards both additional consolidation of large carriers and fragmentation of the market by niche and regional competitors. SBC's competitive viability will be profoundly affected by both trends, but especially by the creation and expansion of a relatively limited number of large, well financed, fully integrated national and global providers that are well positioned to serve the needs of the largest users of telecommunications services.

85. A key component of the strategy behind the SBC/Ameritech merger, as well as a key component of the approval of this merger by SBC's Board, is the belief that the National-Local Strategy and the global expansion of SBC are critical to SBC's success. Indeed, SBC's senior management advised the SBC Board that, without the growth opportunities enabled by this national and global strategy, the premium paid and risk assumed in connection with the merger would not be justified. In approving this merger, the SBC Board also approved the National-Local and global strategies as a critical component of SBC's future. In the absence of the merger, SBC does not believe these strategies are viable and does not contemplate out-of-region entry into local exchange markets.

The Effects of SBC's Strategy on the Public Interest

86. By implementing the National-Local Strategy, SBC believes that its actions will accelerate the development of competition in all market segments. There should be no